

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

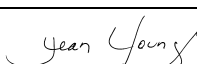
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

East Lansing - Meridian Water and Sewer Authority

Financial Report

June 30, 2007

East Lansing - Meridian Water and Sewer Authority

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Independent Auditor's Report

To the Board of Trustees
East Lansing - Meridian Water and
Sewer Authority

We have audited the accompanying basic financial statements of East Lansing - Meridian Water and Sewer Authority (the "Authority") as of June 30, 2007 and 2006 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of East Lansing - Meridian Water and Sewer Authority at June 30, 2007 and 2006 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 3, 2007

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, the management's discussion and analysis, is intended to provide an overview of the Authority's financial condition, result of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of providing purified water to the municipalities. In essence, the Authority acts as a conduit for its two municipalities. The amounts charged to the municipalities approximate the operating costs incurred by the Authority in providing purified water. The key financial statistics for the Authority, therefore, relate to measurement of the ability to reduce total costs to the municipalities (as opposed to the ability to accumulate financial resources).

	2007	2006	2005
Total operating expenses	\$ 2,630,518	\$ 2,655,356	\$ 2,923,127
Total water production (in thousands of gallons)	2,272,118	2,303,642	2,364,630
Cost per thousand gallons	\$ 1.16	\$ 1.15	\$ 1.24

The cost per thousand gallons was flat between 2007 and 2006 as the operating expenses and amount of water produced remained consistent. Through fiscal year 2005, the cost relating to the removal of spent lime was recorded when the lime was actually removed, which was every three years. Starting in fiscal year 2006, one-third of the estimated three-year cost is being accrued each year, which contributed to lower operating expenses in 2006 and decreased the cost per thousands of gallons from 2005.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

The Authority's net assets decreased in total by \$147,371 or 2.0 percent from 2006. Net assets had decreased by \$565,839 or 7.1 percent from 2005 to 2006.

	2007	2006	2005
Assets			
Capital assets	\$ 6,719,628	\$ 7,007,824	\$ 7,362,010
Other assets	<u>1,146,397</u>	<u>827,995</u>	<u>1,020,391</u>
Total assets	7,866,025	7,835,819	8,382,401
Liabilities	<u>573,941</u>	<u>396,364</u>	<u>377,107</u>
Net Assets			
Invested in capital assets - Net of related debt	6,719,628	7,007,824	7,362,010
Unrestricted	<u>572,456</u>	<u>431,631</u>	<u>643,284</u>
Total net assets	<u>\$ 7,292,084</u>	<u>\$ 7,439,455</u>	<u>\$ 8,005,294</u>

The total assets of the Authority increased \$30,206 from one year ago and decreased \$546,582 from 2005 to 2006. Assets increased slightly with a decrease in the value of capital assets net of depreciation and offset by an increase in cash and investments due to additional monies being collected for the spent lime removal scheduled for fiscal year 2008. Assets were reduced from 2005 to 2006 primarily due to the decrease in capital assets, net of depreciation in the amount of \$345,814 and planned use of available cash.

The increase in liabilities of \$177,577 from prior year is primarily due to the additional amount accrued for spent lime removal scheduled to take place in fiscal year 2008. The increase in liabilities from 2005 to 2006 of \$19,257 was a result of a decrease in the amount due to municipalities offset by the spent lime accrual.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

The following table shows the change in net assets:

	2007	2006	2005
Intergovernmental billings	\$ 2,823,937	\$ 2,475,314	\$ 2,357,986
Other operating revenue	39,019	35,653	284,130
Operating expenses	<u>2,630,518</u>	<u>2,655,356</u>	<u>2,923,127</u>
Net income (loss) from operations	232,438	(144,389)	(281,011)
Nonoperating revenue	34,946	25,523	16,594
Nonoperating expense	<u>(414,755)</u>	<u>(446,973)</u>	<u>(270,410)</u>
Net loss	<u><u>\$ (147,371)</u></u>	<u><u>\$ (565,839)</u></u>	<u><u>\$ (534,827)</u></u>

Intergovernmental billings are the contributions from the municipalities to fund operating expenses. In previous years, the Authority returned excess billings to the municipalities; however, in the current year, the board elected to retain the monies to maintain the desired level of unrestricted net assets. In 2007, intergovernmental billings increased 14 percent while operating expenses decreased slightly, less than 1 percent, primarily due to a budgeted equipment replacement reserve amount of \$88,000 as well as an expected increase in contract services which did not transpire during the year. This resulted in net income from operations of \$232,438. Nonoperating expenses decreased slightly due to no return of excess billings to the municipalities in the current year. In 2006, intergovernmental billings decreased by 5 percent and operating expenses decreased by 9 percent. The accrual of one year of spent lime removal in 2006 compared to the expense in 2005 of three years' spent lime removal caused operating expense to decrease in the current year. Also, net loss was increased as the Authority elected to reappropriate equity from prior years to reduce intergovernmental billings and avoid a large return of excess contributions to municipalities. Since debt was paid off in 2005, the nonoperating expense was higher in 2006 as there were no debt contributions from municipalities to offset depreciation expense.

Capital Asset and Debt Administration

The Authority incurred costs in fiscal years 2002 and 2001 related to the construction of two storage facilities and interconnect sites by the Board of Water and Light. These interconnect sites will allow the Board of Water and Light to provide water production to the Authority. There was no construction in 2007 or 2006 related to the interconnect sites. The Authority has plans to complete one additional interconnect site with the Board of Water and Light in the near future.

The Authority has no definite plans to incur debt financing in the near future.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Rates

The expected production of water by the Authority for the next fiscal year should remain consistent to current year production. As a result, the related operating expenses and amounts contributed by the municipalities should not substantially change.

Contacting the Authority's Management

This financial report is intended to aid our citizens, customers, and other interested parties in understanding the Authority's financial condition. If you have questions about this report or need additional information, please contact Jill Martinez at 517-319-6875.

East Lansing - Meridian Water and Sewer Authority

Statement of Net Assets

	June 30	
	2007	2006
Assets		
Cash and cash equivalents (Note 2)	\$ 839,544	\$ 539,359
Investments (Note 2)	258,682	245,283
Inventory	48,171	33,780
Receivable due from the State of Michigan	-	9,573
Capital assets (Note 3)	<u>6,719,628</u>	<u>7,007,824</u>
Total assets	7,866,025	7,835,819
Liabilities		
Accounts payable	70,975	74,337
Accrued payroll and related items	80,966	78,762
Other accrued liabilities (Note 8)	400,000	200,000
Due to municipalities	<u>22,000</u>	<u>43,265</u>
Total liabilities	<u>573,941</u>	<u>396,364</u>
Net Assets		
Invested in capital assets - Net of related debt	6,719,628	7,007,824
Unrestricted	<u>572,456</u>	<u>431,631</u>
Total net assets (Note 7)	<u>\$ 7,292,084</u>	<u>\$ 7,439,455</u>

East Lansing - Meridian Water and Sewer Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2007	2006
Operating Revenue		
Intergovernmental billings from sale of water:		
City of East Lansing	\$ 1,128,655	\$ 975,240
Meridian Township	1,695,282	1,500,074
State wellhead grant	39,019	35,653
Total operating revenue	2,862,956	2,510,967
Operating Expenses		
Salaries and wages	622,590	616,364
Fringe benefits	194,084	182,038
Pension (Note 5)	57,785	50,190
Utilities	391,608	364,638
Operating supplies	336,953	323,619
Purchase of water from BWL	392,478	386,665
Grant expenses	40,000	35,653
Repairs and maintenance	241,919	333,776
Outside services	23,183	32,676
Rentals	22,856	22,627
Administrative fees	25,000	25,000
Insurance	69,260	68,086
Communications	9,684	9,269
Spent lime removal (Note 8)	200,000	200,000
Miscellaneous	3,118	4,755
Total operating expenses	2,630,518	2,655,356
Operating Income (Loss)	232,438	(144,389)
Nonoperating Revenue (Expenses)		
Interest income	34,946	25,523
Return of excess billings to municipalities	-	(29,708)
Depreciation	(414,755)	(412,831)
Loss on disposal	-	(4,434)
Total nonoperating expenses	(379,809)	(421,450)
Net Loss	(147,371)	(565,839)
Net Assets - Beginning of year	7,439,455	8,005,294
Net Assets - End of year	<u><u>\$ 7,292,084</u></u>	<u><u>\$ 7,439,455</u></u>

East Lansing - Meridian Water and Sewer Authority

Statement of Cash Flows

	Year Ended June 30	
	2007	2006
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,833,510	\$ 2,452,101
Cash received from grants	39,019	35,653
Cash payments to employees for services rendered	(814,470)	(787,638)
Cash payments to suppliers for goods and services	<u>(1,652,862)</u>	<u>(1,842,716)</u>
Net cash provided by (used in) operating activities	405,197	(142,600)
Cash Flows from Capital and Related Financing Activities -		
Payments for the acquisition or construction of capital assets	(126,559)	(63,079)
Cash Flows from Investing Activities		
Interest received on investments	34,946	25,523
Purchase of investments	<u>(13,399)</u>	<u>(10,078)</u>
Net cash provided by investing activities	<u>21,547</u>	<u>15,445</u>
Net Increase (Decrease) in Cash and Cash Equivalents	300,185	(190,234)
Cash and Cash Equivalents - Beginning of year	<u>539,359</u>	<u>729,593</u>
Cash and Cash Equivalents - End of year	<u>\$ 839,544</u>	<u>\$ 539,359</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 232,438	\$ (144,389)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Return of excess billings to municipalities	-	(29,708)
Changes in assets and liabilities:		
(Increase) decrease in inventory	(14,391)	5,745
Decrease in receivable due from State of Michigan	9,573	6,495
(Decrease) increase in accounts payable	(3,362)	10,536
Increase in accrued payroll and related items	2,204	10,764
Increase in other accruals	200,000	200,000
Decrease in due to municipalities	<u>(21,265)</u>	<u>(202,043)</u>
Net cash provided by (used in) operating activities	<u>\$ 405,197</u>	<u>\$ (142,600)</u>

Noncash Activities - There were no significant noncash capital and related financing or investing activities during the years ended June 30, 2007 and 2006.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2007 and 2006

Note 1 - Significant Accounting Policies

The East Lansing - Meridian Water and Sewer Authority (the "Authority") was jointly incorporated by the City of East Lansing and Meridian Township (the "Municipalities") for the purpose of obtaining financing to construct water processing and purification facilities and selling purified water to the Municipalities.

Contributions from the Municipalities for the acquisition of capital assets are credited to nonoperating revenue. The Municipalities' shares of the Authority's operating costs are based on their respective annual water consumption. Depreciation, which is allocated in proportion to the Municipalities' consumption percentages in effect at the time the assets were purchased, is not included as a reimbursable operating cost (see Note 3).

Basis of Accounting - The Authority utilizes the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Private-sector standards of accounting issued prior to December 1, 1989 are generally followed, unless those standards conflict with standards of the Governmental Accounting Standards Board; the Authority has elected not to follow private-sector standards issued after November 30, 1989.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Investments - Investments are comprised of certificate of deposits with an original maturity of more than three months and are stated at fair value.

Inventories - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

Capital Assets - Capital assets are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 10 to 40 years, except for wells that have an estimated useful life of 80 years.

Return of Reserve to Municipalities - Pursuant to a decision by the board annually, the Authority reviews the contributions by the respective Municipalities. The contributions are analyzed, and a return to the Municipalities in excess of operating expenses may occur.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2007 and 2006

Note 1 - Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's deposits and investments are included on the statement of net assets under the following classifications:

	2007	2006
Cash and cash equivalents administered by the City of East Lansing for operations	\$ 620,580	\$ 325,010
Cash and cash equivalents	218,964	214,349
Investments - At fair value	258,682	245,283
Total	<u>\$ 1,098,226</u>	<u>\$ 784,642</u>

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2007 and 2006

Note 2 - Deposits and Investments (Continued)

The Authority's cash and investments are subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2007, the Authority had \$898,226 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At June 30, 2006, the Authority had \$562,624 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Disposals	June 30, 2007	Depreciable Life - Years
Capital assets not being depreciated -					
Land	\$ 277,812	\$ -	\$ -	\$ 277,812	-
Capital assets being depreciated:					
Equity in BWL interconnect facility	854,188	-	-	854,188	10
Water treatment plant	7,005,857	96,395	-	7,102,252	10-40
Wells, mains, and equipment	5,740,099	30,164	-	5,770,263	10-80
Subtotal	13,600,144	126,559	-	13,726,703	
Less accumulated depreciation	(6,870,132)	(414,755)	-	(7,284,887)	
Net capital assets being depreciated	6,730,012	(288,196)	-	6,441,816	
Net capital assets	\$ 7,007,824	\$ (288,196)	\$ -	\$ 6,719,628	

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2007 and 2006

Note 3 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2006 was as follows:

	July 1, 2006	Additions	Disposals	June 30, 2007	Depreciable Life-Years
Capital assets not being depreciated -					
Land	\$ 277,812	\$ -	\$ -	\$ 277,812	-
Capital assets being depreciated:					
Equity in BWL interconnect facility	854,188	-	-	854,188	10
Water treatment plant	7,005,857	-	-	7,005,857	10-40
Wells, mains, and equipment	5,691,294	63,079	14,274	5,740,099	10-80
Subtotal	13,551,339	63,079	14,274	13,600,144	
Less accumulated depreciation	(6,467,141)	(412,831)	(9,840)	(6,870,132)	
Net capital assets being depreciated	7,084,198	(349,752)	4,434	6,730,012	
Net capital assets	\$ 7,362,010	\$ (349,752)	\$ 4,434	\$ 7,007,824	

Note 4 - BWL Wholesale Water Service Agreement

The Authority has entered into various agreements throughout the years with the Board of Water and Light of the City of Lansing (BWL) to provide connection and water services to both the City of East Lansing and Meridian Township. In conjunction with these agreements, certain interconnect fees are charged to the Municipalities.

Note 5 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent, multiple-employer defined benefit pension plan that covers all employees of the Authority. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Authority represents a division within the actuarial report of the City of East Lansing. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain MERS for these employees was established by the Authority's board of trustees and requires no contribution from the employees.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2007 and 2006

Note 5 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Annual Pension Costs - For the year ended June 30, 2007, the Authority's annual pension cost of \$57,785 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent per year. Both (a) and (b) include an inflation assumption of 4.5 percent per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 29 years.

Three-year trend information as of June 30 is as follows:

	Fiscal Year Ended June 30		
	2005	2006	2007
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 44,419	\$ 50,190	\$ 57,785
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$1,414,585	\$1,556,430	\$1,739,018
Actuarial accrued liability (AAL) (entry age)	1,478,013	1,653,619	1,840,842
Unfunded AAL (UAAL)	63,428	97,189	101,824
Funded ratio	96%	94%	94%
Covered payroll	\$ 565,953	\$ 591,111	\$ 615,286
UAAL as a percentage of covered payroll	11%	16%	17%

Postretirement Benefits - The Authority will provide healthcare benefits to various employees in accordance with the personnel rules upon retirement. Currently, the Authority has no retirees. The Authority will also include retirees and their spouses in a commercial health insurance policy, with no contribution required by the participant. During the year, there were no premiums paid as there are no retirees. There is also no advance funding of health insurance for retirees.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2007 and 2006

Note 5 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

Subsequent Event - Effective July 18, 2007, the East Lansing-Meridian Water and Sewer Authority adopted a defined contribution plan. All new employees will have the option of participating in the defined contribution plan; however, the defined benefit plan will not be available to new employees. Existing employees will have the option to either remain in the defined benefit plan or to switch to the defined contribution plan.

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefits provided to employees' claims and participates in the Michigan Municipal League risk pool program for claims relating to employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 7 - Allocation of Net Assets

The allocation of net assets as of June 30 is as follows:

	2007	2006
City of East Lansing	\$ 2,007,792	\$ 2,182,481
Meridian Township	3,680,831	3,920,897
Unallocated	1,603,461	1,336,077
Total	<u>\$ 7,292,084</u>	<u>\$ 7,439,455</u>

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2007 and 2006

Note 8 - Spent Lime Expense

The removal of spent lime is conducted only once every three years. Beginning in 2006, one-third of the estimated three-year cost is accrued to match expenditures with the period of use. At June 30, 2007, \$400,000 of total cash and investments is identified to cover spent lime expenses.

Note 9 - Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.